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**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA**

LEONARD R. PINTO, Derivatively
on Behalf of ARLO
TECHNOLOGIES, INC.,

Plaintiff,

v.

SEAN AGGARWAL, JOCELYN E.
CARTER-MILLER, RALPH E.
FAISON, MATTHEW McRAE,
MIKE POPE, GRADY K.
SUMMERS, and AMY ROTHSTEIN

Defendants,

-and-

ARLO TECHNOLOGIES, INC.

Nominal
Defendant.

Case No.:

**VERIFIED SHAREHOLDER
DERIVATIVE COMPLAINT**

VERIFIED SHAREHOLDER DERIVATIVE COMPLAINT

1 Plaintiff Leonard R. Pinto (“Plaintiff”), by and through his undersigned
2 counsel, derivatively on behalf of Nominal Defendant Arlo Technologies, Inc.
3 (“Arlo” or the “Company”), submits this Verified Shareholder Derivative Complaint
4 (the “Complaint”). Plaintiff’s allegations are based upon his personal knowledge as
5 to himself and his own acts, and upon information and belief, developed from the
6 investigation and analysis by Plaintiff’s counsel, including a review of publicly
7 available information, including filings by Arlo with the U.S. Securities and
8 Exchange Commission (“SEC”), press releases, news reports, analyst reports,
9 investor conference transcripts, publicly available filings in lawsuits, and matters of
10 public record.

11 **NATURE OF THE ACTION**

12 1. This is an action on behalf of persons and/or entities who purchased or
13 otherwise acquired Arlo common stock and continue to hold said stock to the
14 present.

15 2. Arlo issued a false and/or misleading Registration Statement and
16 Prospectus (collectively, the “Registration Statement”) in connection with Arlo’s
17 August 3, 2018 initial public offering (the “IPO” or the “Offering”).

18 3. Since that time, Arlo and certain officers and/or directors of Arlo have
19 been made defendants in a securities fraud suit by investors who alleged they were
20 damaged by the false and misleading statements, and who seek to pursue remedies
21 under Sections 11 and 15 of the Securities Act of 1933 (the “Securities Act”).

22 4. Arlo was incorporated in 2018 and is headquartered in San Jose,
23 California. The Company provides smart connected devices that can purportedly
24 monitor environments in real-time using its cloud-based platform. This is
25 accomplished by using a Wi-Fi or cellular network Internet connection in the
26 Americas, Europe, the Middle-East, Africa, and the Asia Pacific regions. By using
27 Arlo’s cloud-based platform, consumers may engage in real-time with their families
28

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1 and businesses from any location with an internet connection. Arlo also offers Wi-
2 Fi- and LTE-enabled cameras, advanced baby monitors, and smart security lights.

3 5. On August 6, 2018, Arlo filed its prospectus for its upcoming IPO with
4 the SEC, which forms part of the Registration Statement. Arlo sold 11,747,250
5 shares of common stock at \$16.00 per share in its IPO, for proceeds of
6 approximately \$167.4 million, net of underwriting discounts and commissions,
7 purportedly to be used for general corporate purposes.

8 6. Arlo was a wholly-owned subsidiary of NETGEAR, Inc.
9 (“NETGEAR”) before the IPO. NETGEAR offers products enabling networking,
10 broadband access, and network connectivity. NETGEAR owned approximately
11 84.2% of the shares of Arlo’s outstanding common stock after the IPO.

12 7. On November 30, 2018, Arlo announced its “flagship wire-free security
13 camera system” called Arlo Ultra (“Ultra”). The Company touted a “newly
14 designed rechargeable battery” that would purportedly enable the Ultra product to
15 provide 4K Ultra HD resolution with high dynamic range, color night vision, and
16 advanced image processing.

17 8. The Company made materially false and misleading statements
18 regarding its business, operational and compliance policies. Specifically, the
19 Company made false and/or misleading statements and/or failed to disclose that: (i)
20 there was a flaw and/or quality issue with Arlo’s newly designed battery for its Ultra
21 camera systems; (ii) this flaw and/or quality issue with the Ultra battery could result
22 in a shipping delay of Arlo’s Ultra product; (iii) such a shipping delay endangered
23 Arlo’s chances of launching the Ultra product in time for the crucial holiday season;
24 (iv) such a shipping delay would allow Arlo’s competitors to capitalize on the Ultra
25 product’s missed launch, thereby increasing their own market share; (v) Arlo’s
26 consumers had been experiencing battery drain issues and other battery-related
27 issues in connection with recent firmware updates; (vi) because of the foregoing,
28 Arlo’s fourth quarter 2018 results and consumer base would be negatively impacted;

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1 and (vii) as a result, Arlo's Registration Statement was materially false and
2 misleading at all relevant times.

3 9. On December 3, 2018, Arlo reported a delay in shipments of Ultra,
4 citing "a quality issue with the battery from one of its suppliers" that was discovered
5 during the product's final testing phase. As a result of the delay, Ultra also lowered
6 its fourth quarter 2018 financial guidance, advising investors that it anticipated "net
7 revenue to be in the range of \$125 million to \$130 million, non-GAAP gross margin
8 to be approximately 10%, and non-GAAP operating loss to be approximately 20%
9 of revenue."

10 10. Following this news, Arlo's stock price fell \$2.75 per share, or 22.86%,
11 to close at \$9.28 on December 3, 2018. This constituted a decline of \$6.72, or
12 approximately 42%, from the IPO price of \$16.00 per share.

13 **JURISDICTION AND VENUE**

14 11. Pursuant to 28 U.S.C. § 1331 and Section 27 of the Securities
15 Exchange Act of 1934 (the "Exchange Act"), this Court has jurisdiction over the
16 claims asserted herein for violations of sections 10(b) of the Exchange Act. This
17 Court has supplemental jurisdiction over the remaining claims under 28 U.S.C. §
18 1367.

19 12. This Court has jurisdiction over each defendant named herein because
20 each defendant is either a corporation that conducts business in and maintains
21 operations in this District or is an individual who has sufficient minimum contacts
22 with this District to render the exercise of jurisdiction by the District courts
23 permissible under traditional notions of fair play and substantial justice.

24 13. Venue is proper in this Court in accordance with 28 U.S.C. § 1391
25 because: (i) Arlo maintains its principal place of business in this District; (ii) one or
26 more of the defendants either resides in or maintains executive offices in this
27 District; (iii) a substantial portion of the transactions and wrongs complained of
28 herein, including Defendants' primary participation in the wrongful acts detailed

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herein, and aiding and abetting and conspiracy in violation of fiduciary duties owed to Arlo, occurred in this District; and (iv) Defendants have received substantial compensation in this District by doing business here and engaging in numerous activities that had an effect in this District.

PARTIES

Plaintiff

14. ***Plaintiff Leonard R. Pinto*** (“Plaintiff”) is a current owner of Arlo’s stock and has held the stock during the time of the continuous wrongful course of conduct alleged herein. Plaintiff will fairly and adequately represent the interests of the shareholders in enforcing the rights of the Company.

Nominal Defendant

15. ***Defendant Arlo Technologies, Inc.*** (“Arlo” or the “Company”) is a Delaware corporation with its principal executive offices located at 3030 Orchard Parkway, San Jose, CA 95134.

Director Defendants

16. ***Defendant Sean Aggarwal*** (“Aggarwal”) has served as a member of Arlo’s Board of Directors since October 2018. Defendant Aggarwal is a member of the Compensation, Nominating and Corporate Governance, and Cybersecurity committees.

17. ***Defendant Jocelyn E. Carter-Miller*** (“Carter”) has served as a member of Arlo’s Board of Directors since August 2018. Defendant Carter is a member of the Audit and Strategic committees. Defendant Carter is the Chair of the Compensation Committee.

18. ***Defendant Ralph E. Faison*** (“Faison”) has served as Chairman of the Board of Directors since August 2018. Defendant Faison is a member of the Compensation and Cybersecurity committees. Defendant Faison is the Chair of the Nominating and Corporate Governance Committee and Strategic Committee.

19. ***Defendant Matthew McRae (“McRae”)*** was, at all relevant times, the Chief Executive Officer and one of the Directors of the Company and signed or authorized the signing of the Company’s Registration Statement filed with the SEC.

20. ***Defendant Mike Pope (“Pope”)*** has served as a member of Arlo’s Board of Directors since October 2018. Defendant Pope is the Chair of the Audit Committee and a member of the Nominating and Corporate Governance Committee.

21. ***Defendant Grady Summers (“Summers”)*** has served as a member of Arlo’s Board of Directors since August 2018. Defendant Summers is a member of the Audit Committee and the Chair of the Cybersecurity Committee.

22. ***Defendant Amy Rothstein (“Rothstein”)*** has served as a director since May 7, 2019. Defendant Rothstein is a member of the Strategic Committee.

23. Defendants Aggrawal, Carter, Faison, McRae, Pope, Summers, and Rothstein are referred to herein as the “Director Defendants”.

ARLO’S CORPORATE GOVERNANCE

24. As members of the Company’s Board, the Director Defendants were held to the highest standards of honesty and integrity and charged with overseeing the Company’s business practices and policies and assuring the integrity of its financial and business records.

25. The conduct of the Director Defendants complained of herein involves a knowing and culpable violation of their obligations as directors and officers of the Company, the absence of good faith on their part, and a reckless disregard for their duties to the Company and its investors that the Director Defendants were aware posed a risk of serious injury to the Company.

CODE OF BUSINESS ETHICS AND CONFLICT OF INTEREST POLICY FOR DIRECTORS, OFFICERS AND KEY EMPLOYEES

26. The Company maintains a Code of Business Conduct and Ethics (“Code of Conduct”). The Code of Conduct states in relevant part:

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IV. DISCLOSURE TO THE SEC AND THE PUBLIC

Our policy is to provide full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the SEC and in our other public communications. Accordingly, Covered Persons must ensure that they and others in the Company comply with our disclosure controls and procedures and our internal controls for financial reporting. In the event any Covered Person believes or suspects that any information that is filed with, or submitted to the SEC, or otherwise made publicly available is materially inaccurate or misleading, or if such Covered Person has identified or has suspicion of a material weakness in the Company's public reporting procedures, such Covered Person shall promptly raise such concern with one of the following: the Chief Financial Officer, or the SVP of Human Resources, or General Counsel, or Internal Audit or Chairman of the Audit Committee (or other member of the Audit Committee, as may be appropriate). Such report may be made on an anonymous basis.

27. As stated therein, the Code of Conduct applies to all of Arlo's officers, directors, and employees. The wrongful conduct of the Director Defendants complained of herein violates the Code of Conduct.

CHARTER FOR THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

28. Arlo maintains an Audit Committee Charter. The Audit Committee Charter states in relevant part:

The Audit Committee's responsibility is one of oversight. The members of the Audit Committee are not employees of the Company, and they do not perform, or represent that they perform, the functions of management or the independent auditors. The Audit Committee relies on the expertise and knowledge of management and the independent auditors in carrying out its oversight responsibilities. The management of the Company is responsible for preparing accurate and complete financial statements in accordance with generally accepted accounting principles and for establishing and maintaining appropriate accounting principles and financial reporting policies and satisfactory internal control over financial reporting. The independent auditors are

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1 responsible for auditing the Company's annual consolidated financial
2 statements and the effectiveness of the Company's internal control over
3 financial reporting and reviewing the Company's periodic financial
4 statements. It is not the responsibility of the Audit Committee to
5 prepare or certify the Company's financial statements or guarantee the
6 audits or reports of the independent auditors, nor is it the duty of the
7 Audit Committee to certify that the independent auditor is
8 "independent" under applicable rules. These are the fundamental
9 responsibilities of management and the independent auditors.

* * *

10 COMMITTEE RESPONSIBILITIES AND AUTHORITY:

11 The responsibilities of the Audit Committee shall include:

- 12 • Overseeing the Company's system of internal controls over
13 financial reporting, including meeting periodically with the
14 Company's management and the independent auditors to review
15 the adequacy of such controls and to review the disclosure
16 regarding such system of internal controls required under SEC
17 rules to be contained in the Company's periodic filings and the
18 attestations or reports by the independent auditors relating to
19 such disclosure;
- 20 • Prior to engagement of any prospective auditors, reviewing a
21 written disclosure by the prospective auditors of all relationships
22 between the prospective auditors, or their affiliates, and the
23 Company, or persons in financial oversight roles at the
24 Company, that may reasonably be thought to bear on
25 independence, and to discuss with the prospective auditors the
26 potential effects of such relationships on the independence of the
27 prospective auditors, consistent with Ethics and Independence
28 Rule 3526, Communication with Audit Committees Concerning
Independence, of the Public Company Accounting Oversight
Board (United States) (the "PCAOB");
- Appointing, retaining, compensating and overseeing the work of
the independent auditors (including resolving disagreements
between management and the independent auditors regarding

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1 financial reporting) for the purpose of preparing or issuing an
2 audit report or related work. The Audit Committee shall submit
3 its selection of the independent auditors to the Company's
4 stockholders for their non-binding ratification on an annual basis;

- 5 • Pre-approving audit and permissible non-audit services provided
6 to the Company by the independent auditors (or subsequently
7 approving non-audit services in those circumstances where a
8 subsequent approval is necessary and permissible); in this regard,
9 the Audit Committee shall have the sole authority to approve the
10 selection and termination of the independent auditors (which
11 independent auditors shall report to the Audit Committee), all
12 audit engagement fees and terms and all non-audit engagements,
13 as may be permissible, with the independent auditors;
- 14 • Reviewing and discussing with the independent auditors any
15 documentation supplied by the independent auditors as to the
16 nature and scope of any tax services to be approved, as well as
17 the potential effects of the provision of such services on the
18 auditor's independence;
- 19 • Reviewing and providing oversight with respect to the external
20 audit and the Company's relationship with its independent
21 auditors by (i) reviewing the independent auditors' proposed
22 audit scope, approach and independence for the annual audit and
23 quarterly reviews for the current year; (ii) obtaining on a periodic
24 basis a written statement from the independent auditors regarding
25 relationships and services with the Company which may impact
26 independence and presenting this statement to the Board, and to
27 the extent there are relationships, monitoring and investigating
28 them; (iii) discussing with the Company's independent auditors
the financial statements and audit findings, including any
significant adjustments, management judgments and accounting
estimates, changes in the Company's selection or application of
accounting principles, any difficulties encountered in the course
of the audit work, suggestions for improvements provided to
management by the independent auditors, any restrictions on the
scope of activities or access to requested information, any
significant disagreements with management and any other
required communications described in applicable accounting

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standards, significant new accounting policies and any other matters described in PCAOB AS 1301 – Communications with Audit Committees, as may be modified or supplemented; and (iv) reviewing reports submitted to the audit committee by the independent auditors in accordance with the applicable SEC requirements;

- Reviewing and discussing with management and the independent auditors the annual audited financial statements and quarterly unaudited financial statements, including the Company’s disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in connection with filing the Company’s Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, respectively, with the SEC;
- Engaging the Company’s independent auditors to review, prior to filing with the SEC, the Company’s interim financial statements included in Quarterly Reports on Form 10-Q, using professional standards and procedures for conducting such reviews;
- Reviewing, prior to announcement, the Company press releases containing material financial information and discussing with management whether such press releases properly disclose financial information presented in accordance with GAAP and, to the extent non-GAAP information is included, applicable rules and regulations of the SEC governing the disclosure of such non-GAAP information;
- Overseeing compliance with the requirements of the SEC and the New York Stock Exchange for disclosure of auditor’s services and audit committee members, member qualifications and activities;
- At least annually, obtaining and reviewing a report by the independent auditor describing the audit firm’s internal quality-control procedures and any material issues raised by the most recent internal quality-control procedures and any material issues raised by the most recent internal quality-control, peer review or

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1 any inquiry or investigation by governmental or professional
2 authorities within the preceding two years, and any steps to deal
3 with any identified issues;

- 4 • Discussing with management and the independent auditors
5 correspondence with regulators or governmental agencies that
6 raise material issues regarding the Company's financial
7 statements or accounting policies;
- 8 • Reviewing management's monitoring of compliance with the
9 Foreign Corrupt Practices Act, the UK Anti-Bribery Act and any
10 other similar laws;
- 11 • Annually reviewing and providing to the Board for its approval
12 the Company's Code of Business Ethics and Conflict of Interest
13 Policy for Directors, Officers and Key Employees, in accordance
14 with applicable law;
- 15 • Reviewing annually the results of the annual Certification of the
16 Code of Business Ethics and Conflict of Interest Policy For
17 Directors, Officers and Key Employees with management, and
18 the disposition of all instances of noncompliance as appropriate;
- 19 • Setting clear hiring policies for employees or former employees
20 of the Company's independent auditors, consistent with SEC and
21 the New York Stock Exchange regulations and guidelines;
- 22 • Reviewing and evaluating the lead partner of the independent
23 auditor team and ensuring an orderly rotation of the lead audit
24 partner as required by law;
- 25 • Reviewing with the independent auditors, as appropriate,
26 communications between the audit team and the independent
27 auditors' national office with respect to accounting or auditing
28 issues presented by the engagement;
- Reviewing, in conjunction with counsel, any legal matters that
could have a significant impact on the Company's financial
statements;

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- 1 • Reviewing and discussing with management and the independent
2 auditor the Company's financial risk exposures (including its
3 investment policies) and assessing the policies and processes
4 management has implemented to monitor and control such
5 exposures;
- 6 • Assisting the Board in fulfilling its oversight responsibilities
7 regarding the Company's policies and processes with respect to
8 enterprise risk assessment and management, including any
9 significant non-financial risk exposures;
- 10 • If necessary, instituting special investigations with full access to
11 all books, records, facilities and personnel of the Company;
- 12 • Obtaining advice and assistance from outside legal, accounting
13 or other advisors, with any resulting expenses being paid by the
14 Company;
- 15 • Reviewing in advance and approving all transactions between the
16 Company and a related party for which review or approval is
17 required by applicable law or that are required to be disclosed in
18 the Company's financial statements or SEC filings;
- 19 • At least annually, reviewing its own charter, structure, processes,
20 and membership requirements and performing an annual self-
21 evaluation of its performance;
- 22 • Providing a report in the Company's proxy statement in
23 accordance with the rules and regulations of the SEC;
- 24 • Establishing procedures for receiving, retaining and treating
25 complaints received by the Company regarding accounting,
26 internal accounting controls or auditing matters and procedures
27 for the confidential, anonymous submission by employees of
28 concerns regarding questionable accounting, internal accounting
 controls, auditing matters or related matters;
- Reviewing and advising the Chief Executive Officer and the
 Board with respect to the appointment, dismissal and
 replacement of the chief financial officer (and chief accounting

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1 officer) and consulting with the Chief Executive Officer about
2 the performance goals and subsequent performance evaluation
3 and compensation of each;

- 4 • Reviewing the performance, and determining the scope, roles
5 and responsibilities, of the Company's internal audit function,
6 including: (i) assessing resource requirements (internal, external
7 and/or combined); (ii) reviewing with management and the chief
8 internal audit executive any Internal Audit Charter, audit plans,
9 activities, staffing and organizational structure of the internal
10 audit function; (iii) ensuring there are no unjustified restrictions
11 or limitations on the chief internal audit executive; (iv) reviewing
12 any significant reports to management prepared by the internal
13 audit department, including management's adoption and
14 resolution of the internal audit department's recommendations;
15 (v) reviewing the effectiveness of the internal audit function
16 annually as part of the year-end external audit and reporting
17 process; and (vi) on a regular basis, meeting separately with the
18 chief internal audit executive to discuss any matters that the
19 Audit Committee or internal audit believes should be discussed
20 privately;
- 21 • Reviewing and discussing with executive management, and
22 recommending to the Board, the appointment or dismissal of the
23 chief internal audit executive and consulting with executive
24 management about his or her performance goals and subsequent
25 performance evaluation and compensation, and the application of
26 the Company's compensation policies to other internal audit
27 personnel; and
- 28 • Any additional responsibility or authority mandated by the SEC,
the New York Stock Exchange or other applicable rule or
regulation.

29. The purpose of the Audit Committee is to assist Arlo's Board of
Directors in its oversight of accounting, financial reporting and disclosure processes
and adequacy of systems of disclosure and internal controls. The wrongful conduct

1 of the Director Defendants complained of herein violates the Charter of the Audit
2 Committee.

3 30. The Board of Directors of Arlo are also charged with developing and
4 maintaining the Company's corporate governance policies and any related matters
5 required by the federal securities laws. The wrongful conduct of the Director
6 Defendants complained of herein violates good corporate governance principles.

7 **DUTIES OF THE DIRECTOR DEFENDANTS**

8 31. By reason of their positions as officers and/or directors of the
9 Company, and because of their ability to control the business and corporate affairs
10 of the Company, the Director Defendants owed the Company and its investors the
11 fiduciary obligations of trust, loyalty, and good faith. The obligations required the
12 Director Defendants to use their utmost abilities to control and manage the
13 Company in an honest and lawful manner. The Director Defendants were and are
14 required to act in furtherance of the best interests of the Company and its investors.

15 32. Each director of the Company owes to the Company and its investors
16 the fiduciary duty to exercise loyalty, good faith, and diligence in the administration
17 of the affairs of the Company and in the use and preservation of its property and
18 assets. In addition, as officers and/or directors of a publicly held company, the
19 Director Defendants had a duty to promptly disseminate accurate and truthful
20 information regarding the Company's operations, finances, and financial condition,
21 as well as present and future business prospects, so that the market price of the
22 Company's stock would be based on truthful and accurate information.

23 33. To discharge their duties, the officers and directors of the Company
24 were required to exercise reasonable and prudent supervision over the management,
25 policies, practices, and controls of the affairs of the Company. By virtue of such
26 duties, the officers and directors of the Company were required to, among other
27 things:

28 **VERIFIED SHAREHOLDER DERIVATIVE COMPLAINT**

1 (a) ensure that the Company complied with its legal obligations and
2 requirements, including acting only within the scope of its legal
3 authority and disseminating truthful and accurate statements to the SEC
4 and the investing public;

5 (b) conduct the affairs of the Company in an efficient, businesslike
6 manner so as to make it possible to provide the highest quality
7 performance of its business, to avoid wasting the Company's assets,
8 and to maximize the value of the Company's stock;

9 (c) properly and accurately guide investors and analysts as to the
10 true financial condition of the Company at any given time, including
11 making accurate statements about the Company's business prospects,
12 and ensuring that the Company maintained an adequate system of
13 financial controls such that the Company's financial reporting would be
14 true and accurate at all times;

15 (d) remain informed as to how the Company conducted its
16 operations, and, upon receipt of notice or information of imprudent or
17 unsound conditions or practices, make reasonable inquiries in
18 connection therewith, take steps to correct such conditions or practices,
19 and make such disclosures as necessary to comply with federal and
20 state securities laws;

21 (e) ensure that the Company was operated in a diligent, honest, and
22 prudent manner in compliance with all applicable federal, state and
23 local laws, and rules and regulations; and

24 (f) ensure that all decisions were the product of independent
25 business judgment and not the result of outside influences or
26 entrenchment motives.

27 34. Each Director Defendant, by virtue of his or her position as a director
28 and/or officer, owed to the Company and to its shareholders the fiduciary duties of

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1 loyalty, good faith, and the exercise of due care and diligence in the management
2 and administration of the affairs of the Company, as well as in the use and
3 preservation of its property and assets. The conduct of the Director Defendants
4 complained of herein involves a knowing and culpable violation of their obligations
5 as directors and officers of the Company, the absence of good faith on their part, and
6 a reckless disregard for their duties to the Company and its shareholders that the
7 Director Defendants were aware, or should have been aware, posed a risk of serious
8 injury to the Company.

9 35. The Director Defendants breached their duties of loyalty and good faith
10 by causing the Company to issue false and misleading statements concerning the
11 business opportunities, results, and prospects of the Company. As a result, the
12 Company has expended, and will continue to expend, significant sums of money
13 related to investigations and lawsuits.

14 **CONSPIRACY, AIDING AND ABETTING, AND CONCERTED ACTION**

15 36. In committing the wrongful acts alleged herein, the Director
16 Defendants have pursued, or joined in the pursuit of, a common course of conduct,
17 and have acted in concert with and conspired with one another in furtherance of
18 their common plan or design. In addition to the wrongful conduct herein alleged as
19 giving rise to primary liability, the Director Defendants further aided and abetted
20 and/or assisted each other in breaching their respective duties.

21 37. During all times relevant hereto, the Director Defendants, collectively
22 and individually, initiated or allowed a course of conduct that was designed to and
23 did deceive the investing public, including stockholders of Arlo, regarding its
24 alleged agreement with a customer, and its business and business prospects
25 discussed herein. In furtherance of this plan, conspiracy, and course of conduct, the
26 Director Defendants, collectively and individually, took the actions set forth herein.

27 38. The Director Defendants engaged in a conspiracy, common enterprise,
28 and/or common course of conduct. During this time, the Director Defendants

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1 caused the Company to issue false and misleading press releases and other public
2 filings as alleged herein.

3 39. The purpose and effect of the Director Defendants' conspiracy,
4 common enterprise, and/or common course of conduct was, among other things, to
5 disguise the Director Defendants' violations of law and breaches of fiduciary duty,
6 and to conceal adverse information concerning the Company's operations, financial
7 condition, and future business prospects.

8 40. The Director Defendants accomplished their conspiracy, common
9 enterprise, and/or common course of conduct by causing the Company to
10 purposefully or recklessly release improper statements. Because the actions
11 described herein occurred under the authority of the Board, each of the Director
12 Defendants was a direct, necessary, and substantial participant in the conspiracy,
13 common enterprise, and/or common course of conduct complained of herein.

14 41. Each of the Director Defendants aided and abetted and rendered
15 substantial assistance in the wrongs complained of herein. In taking such actions to
16 substantially assist the commission of the wrongdoing complained of herein, each
17 Director Defendant acted with knowledge of the primary wrongdoing, substantially
18 assisted in the accomplishment of that wrongdoing, and was aware of his overall
19 contribution to and furtherance of the wrongdoing.

20 **SUBSTANTIVE ALLEGATIONS**

21 **Background**

22 42. Arlo was incorporated in 2018 and is headquartered in San Jose,
23 California. The Company provides smart connected devices that can purportedly
24 monitor environments in real-time using its cloudbased platform. This is
25 accomplished by using a Wi-Fi or cellular network Internet connection in the
26 Americas, Europe, the Middle-East, Africa, and the Asia Pacific regions. By using
27 Arlo's cloud-based platform, consumers may engage in real-time with their families
28

1 and businesses from any location with an internet connection. Arlo also offers Wi-
2 Fi- and LTE-enabled cameras, advanced baby monitors, and smart security lights.

3 43. Arlo was a wholly-owned subsidiary of NETGEAR before the IPO.
4 NETGEAR offers products enabling networking, broadband access, and network
5 connectivity. NETGEAR owned approximately 84.2% of the shares of Arlo's
6 outstanding common stock after the IPO.

7 44. On November 30, 2018, Arlo announced Ultra—the Company's
8 “flagship wire-free security camera system.” The Company touted a “newly
9 designed rechargeable battery” that would purportedly enable the Ultra product to
10 provide 4K Ultra HD resolution with high dynamic range, color night vision, and
11 advanced image processing.

12
13 **MATERIALLY FALSE AND MISLEADING**
STATEMENTS AND OMISSIONS

14 45. On July 31, 2018, the Company filed its final amendment to the
15 Registration Statement with the SEC on Form S-1/A, which forms part of the
16 Registration Statement. The Registration Statement was declared effective on
17 August 2, 2018.

18 46. On August 6, 2018, the Company filed its prospectus for its upcoming
19 IPO with the SEC, which forms part of the Registration Statement. The Company
20 sold 11,747,250 shares of common stock at \$16.00 per share in its IPO, for proceeds
21 of approximately \$167.4 million, net of underwriting discounts and commissions,
22 purportedly to be used for general corporate purposes.

23 47. The Registration Statement and Prospectus for the IPO (collectively,
24 the “Registration Statement”) were negligently prepared and, as a result, contained
25 untrue statements of material facts or omitted to state other facts necessary to make
26 the statements made not misleading, and were not prepared in accordance with the
27 rules and regulations governing their preparation. Under applicable SEC rules and
28 regulations, the Registration Statement was required to disclose known trends,

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1 events, or uncertainties that were having, and were reasonably likely to have, an
2 impact on Arlo's continuing operations.

3 48. The Registration Statement contained merely boilerplate information
4 concerning the risk of delays in launching new products, stating, in relevant part:

5 *If we fail to continue to introduce or acquire new products or services*
6 *that achieve broad market acceptance on a timely basis, or if our*
7 *products or services are not adopted as expected, we will not be able*
8 *to compete effectively and we will be unable to increase or maintain*
9 *revenue and gross margin.*

10 * * *

11 *We may experience delays and quality issues in releasing new*
12 *products and services, which may result in lower quarterly revenue*
13 *than expected.*

14 (Second emphasis added.)

15 49. The Registration Statement also contained information concerning the
16 risk of defective components supplied by third-party manufacturers, stating, in
17 relevant part:

18 We obtain several key components from limited or sole sources, and if
19 these sources fail to satisfy our supply requirements or we are unable to
20 properly manage our supply requirements with our third-party
21 manufacturers, we may lose sales and experience increased component
22 costs.

23 Any shortage or delay in the supply of key product components would
24 harm our ability to meet scheduled product deliveries. Many of the
25 components used in our products are specifically designed for use in
26 our products, some of which are obtained from sole source suppliers.
27 These components include lens, lens-sensors and passive infrared
28 ("PIR") sensors that have been customized for the Arlo application, as
well as custom-made batteries that provide power conservation and
safety features. In addition, the components used in our end products
have been optimized to extend battery life.

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1 * * *

2
3 If we are unable to obtain a sufficient supply of components, or if we
4 experience any interruption in the supply of components, our product
5 shipments could be reduced or delayed or our cost of obtaining these
6 components may increase. Component shortages and delays affect our
7 ability to meet scheduled product deliveries, damage our brand and
8 reputation in the market, and cause us to lose sales and market share
9 [...]. In addition, at times sole suppliers of highly specialized
10 components have provided components that were either defective or
11 did not meet the criteria required by our retailers, distributors or other
12 channel partners, resulting in delays, lost revenue opportunities and
13 potentially substantial write-offs.

14 50. Additionally, the Registration Statement touted the Company's "power
15 management expertise" as one of "three key technology differentiators," stating, in
16 relevant part:

17 We have built Arlo platform on three key technology differentiators:

18 * * *

19 Our proven power management expertise, leveraged from NETGEAR's
20 years of experience building mobile hotspots, encompasses hardware
21 product design, software and firmware, including patented beaconing
22 and power management methods, to prolong battery life.

23 * * *

24 Arlo's power management expertise, encompassing hardware product
25 design, software and firmware, minimizes power consumption in our
26 devices. Motion-activated on/off sensors prolong the devices' overall
27 battery life, and our patented low-power Wi-Fi technology also
28 minimizes battery usage before and during video transmission. As a
result, our users typically only need to recharge their Arlo devices
every three to six months, leading to flexible indoor and outdoor
placement options.

1 51. The statements referenced above were materially false and/or
2 misleading because they misrepresented and failed to disclose the following adverse
3 facts pertaining to the Company's business, operational and financial results.
4 Specifically, the Company made false and/or misleading statements and/or failed to
5 disclose that: (i) there was a flaw and/or quality issue with Arlo's newly designed
6 battery for its Ultra camera systems; (ii) this flaw and/or quality issue with the Ultra
7 battery could result in a shipping delay of Arlo's Ultra product; (iii) such a shipping
8 delay endangered Arlo's chances of launching the Ultra product in time for the
9 crucial holiday season; (iv) such a shipping delay would allow Arlo's competitors to
10 capitalize on the Ultra product's missed launch, thereby increasing their own market
11 share; (v) Arlo's consumers had been experiencing battery drain issues and other
12 battery-related issues in connection with recent firmware updates; (vi) because of
13 the foregoing, Arlo's fourth quarter 2018 results and consumer base would be
14 negatively impacted; and (vii) as a result, Arlo's Registration Statement was
15 materially false and misleading at all relevant times.

16 52. On August 27, 2018, the Company filed a Form 10-Q for the quarterly
17 period ended July 1, 2018 ("07/01/18 Form 10-Q"). In that 07/01/18 Form 10-Q,
18 the Company stated:

19 We obtain several key components from limited or sole sources, and if
20 these sources fail to satisfy our supply requirements or we are unable to
21 properly manage our supply requirements with our third-party
22 manufacturers, we may lose sales and experience increased component
23 costs.

24 Any shortage or delay in the supply of key product components would
25 harm our ability to meet scheduled product deliveries. Many of the
26 components used in our products are specifically designed for use in
27 our products, some of which are obtained from sole source suppliers.
28 These components include lens, lens-sensors, and passive infrared
("PIR") sensors that have been customized for the Arlo application, as
well as custom-made batteries that provide power conservation and

1 safety features. In addition, the components used in our end products
2 have been optimized to extend battery life. Our third-party
3 manufacturers generally purchase these components on our behalf, and
4 we do not have any contractual commitments or guaranteed supply
5 arrangements with our suppliers. If demand for a specific component
6 increases, we may not be able to obtain an adequate number of that
7 component in a timely manner. In addition, if worldwide demand for
8 the components increases significantly, the availability of these
9 components could be limited. Further, our suppliers may experience
10 financial or other difficulties as a result of uncertain and weak
11 worldwide economic conditions. Other factors that may affect our
12 suppliers' ability or willingness to supply components to us include
13 internal management or reorganizational issues, such as roll-out of new
14 equipment which may delay or disrupt supply of previously forecasted
15 components, or industry consolidation and divestitures, which may
16 result in changed business and product priorities among certain
17 suppliers. It could be difficult, costly, and time consuming to obtain
18 alternative sources for these components, or to change product designs
19 to make use of alternative components. In addition, difficulties in
20 transitioning from an existing supplier to a new supplier could create
21 delays in component availability that would have a significant impact
22 on our ability to fulfill orders for our products.

23
24 55. On November 2, 2018, the Company filed a Form 10-Q for the
25 quarterly period ended September 30, 2018 ("09/30/18 Form 10-Q"). In that
26 09/30/18 Form 10-Q, the Company stated:

27 We obtain several key components from limited or sole sources, and if
28 these sources fail to satisfy our supply requirements or we are unable to
properly manage our supply requirements with our third-party
manufacturers, we may lose sales and experience increased component
costs.

Any shortage or delay in the supply of key product components would
harm our ability to meet scheduled product deliveries. Many of the
components used in our products are specifically designed for use in
our products, some of which are obtained from sole source suppliers.
These components include lens, lens-sensors, and passive infrared
("PIR") sensors that have been customized for the Arlo application, as
well as custom-made batteries that provide power conservation and

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1 safety features. In addition, the components used in our end products
2 have been optimized to extend battery life. Our third-party
3 manufacturers generally purchase these components on our behalf, and
4 we do not have any contractual commitments or guaranteed supply
5 arrangements with our suppliers. If demand for a specific component
6 increases, we may not be able to obtain an adequate number of that
7 component in a timely manner. In addition, if worldwide demand for
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13 internal management or reorganizational issues, such as roll-out of new
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15 components, or industry consolidation and divestitures, which may
16 result in changed business and product priorities among certain
17 suppliers. It could be difficult, costly, and time consuming to obtain
18 alternative sources for these components, or to change product designs
19 to make use of alternative components. In addition, difficulties in
20 transitioning from an existing supplier to a new supplier could create
21 delays in component availability that would have a significant impact
22 on our ability to fulfill orders for our products.

23
24
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28
56. The statements referenced above in paragraphs 54-55 were materially
false and/or misleading because they misrepresented and failed to disclose the
following adverse facts pertaining to the Company's business, operational and
financial results. Specifically, the Company made false and/or misleading
statements and/or failed to disclose that: (i) there was a flaw and/or quality issue
with Arlo's newly designed battery for its Ultra camera systems; (ii) this flaw and/or
quality issue with the Ultra battery could result in a shipping delay of Arlo's Ultra
product; (iii) such a shipping delay endangered Arlo's chances of launching the
Ultra product in time for the crucial holiday season; (iv) such a shipping delay
would allow Arlo's competitors to capitalize on the Ultra product's missed launch,
thereby increasing their own market share; (v) Arlo's consumers had been
experiencing battery drain issues and other battery-related issues in connection with

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1 recent firmware updates; (vi) because of the foregoing, Arlo's fourth quarter 2018
2 results and consumer base would be negatively impacted; and (vii) as a result,
3 Arlo's Registration Statement was materially false and misleading at all relevant
4 times.

5 **THE TRUTH BEGINS TO EMERGE**

6 57. On December 3, 2018, the Company reported a delay in shipments of
7 Ultra, citing "a quality issue with the battery from one of its suppliers" that was
8 discovered during the product's final testing phase. As a result of the delay, Ultra
9 also lowered its fourth quarter 2018 financial guidance, advising investors that it
10 anticipated "net revenue to be in the range of \$125 million to \$130 million, non-
11 GAAP gross margin to be approximately 10%, and non-GAAP operating loss to be
12 approximately 20% of revenue."

13 58. Following this news, the Company's stock price fell \$2.75 per share, or
14 22.86%, to close at \$9.28 on December 3, 2018. This constituted a decline of \$6.72,
15 or approximately 42%, from the IPO price of \$16.00 per share.

16 **DERIVATIVE AND DEMAND FUTILITY ALLEGATIONS**

17 59. Plaintiff brings this action derivatively in the right and for the benefit of
18 the Company to redress injuries suffered and to be suffered as a direct and
19 proximate result of the breaches of fiduciary duties and gross mismanagement by
20 the Director Defendants.

21 60. Plaintiff will adequately and fairly represent the interests of the
22 Company in enforcing and prosecuting its rights and has retained counsel competent
23 and experienced in derivative litigation.

24 61. Plaintiff is a current owner of the Company stock and has continuously
25 been an owner of Company stock during all times relevant to the Director
26 Defendants' wrongful course of conduct alleged herein.

27 62. Plaintiff understands his obligation to hold stock throughout the
28 duration of this action and is prepared to do so.

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1 63. During the illegal and wrongful course of conduct at the Company and
2 through the present, the Board consisted of the Director Defendants and/or the
3 former directors.

4 64. Because of the facts set forth throughout this Complaint, demand on the
5 Company Board to institute this action is not necessary because such a demand
6 would have been a futile and useless act.

7 63. The Company Board is currently comprised of seven (7) members –
8 Aggrawal, Carter, Faison, McRae, Pope, Summers, and Rothstein. Thus, Plaintiff is
9 required to show that a majority of the Director Defendants, *i.e.*, four (4), cannot
10 exercise independent objective judgment about whether to bring this action or
11 whether to vigorously prosecute this action.

12 64. The Director Defendants either knew or should have known of the false
13 and misleading statements that were issued on the Company's behalf and took no
14 steps in a good faith effort to prevent or remedy that situation.

15 65. The Director Defendants either knew or should have known of the false
16 and misleading statements that were issued on the Company's behalf and took no
17 steps in a good faith effort to prevent or remedy that situation.

18 66. The Director Defendants (or at the very least a majority of them)
19 cannot exercise independent objective judgment about whether to bring this action
20 or whether to vigorously prosecute this action. For the reasons that follow, and for
21 reasons detailed elsewhere in this complaint, Plaintiff has not made (and should be
22 excused from making) a pre-filing demand on the Board to initiate this action
23 because making a demand would be a futile and useless act.

24 67. Each of the Director Defendants approved and/or permitted the wrongs
25 alleged herein to have occurred and participated in efforts to conceal or disguise
26 those wrongs from the Company's stockholders or recklessly and/or with gross
27 negligence disregarded the wrongs complained of herein and are therefore not
28 disinterested parties.

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68. Each of the Director Defendants authorized and/or permitted the false statements to be disseminated directly to the public and made available and distributed to shareholders, authorized and/or permitted the issuance of various false and misleading statements, and are principal beneficiaries of the wrongdoing alleged herein, and thus, could not fairly and fully prosecute such a suit even if they instituted it.

69. Additionally, each of the Director Defendants received payments, benefits, stock options, and other emoluments by virtue of their membership on the Board and their control of the Company.

Defendant McRae

70. Defendant McRae is not disinterested or independent, and therefore, is incapable of considering demand because McRae (as CEO of the Company) is an employee of the Company who derives substantially all of his income from his employment with the Company, making him not independent. As such, McRae cannot independently consider any demand to sue himself for breaching his fiduciary duties to the Company, because that would expose him to liability and threaten his livelihood.

71. This lack of independence and financial benefits received by McRae renders him incapable of impartially considering a demand to commence and vigorously prosecute this action.

72. In addition, McRae is a defendant in the securities class action entitled *Wong v. Arlo Technologies, Inc., et. al.*, Case 5:19-cv-00372-BLF (N.D. Cal.) (“Federal Securities Class Action”).

73. Defendant McRae is also a defendant in the state class actions pursuant to Section 11 of the Securities Act of 1933 entitled: (i) *Vardanian, et al. v. Arlo Technologies, Inc., et al.*, Case No.: 19CV342318 (Supr. Ct. Cal., Santa Clara County) (the “Vardanian Section 11 Class Action”); (ii) *Pham v. Arlo Technologies, Inc., et al.*, Case No.: 19CV340741 (Supr. Ct. Cal., Santa Clara County) (the “Pham

1 Section 11 Class Action”); (iii) *Patel v. Arlo Technologies, Inc., et al.*, Case No.
 2 19CV340758 (Supr. Ct. Cal., Santa Clara County) (the “Patel Section 11 Class
 3 Action”); (iv) *Hill, et. al. v. Arlo Technologies, Inc., et al.*, Case No.: 19CV343033
 4 (Supr. Ct. Cal., Santa Clara County) (the “Hill Section 11 Class Action”); and (v)
 5 *Aversa v. Arlo Technologies, Inc., et al.*, Case No.: 18CV339231 (Supr. Ct. Cal.,
 6 Santa Clara County) (the “Aversa Section 11 Class Action”) (collectively, the State
 7 Section 11 Class Actions”).

8 74. As such, Defendant McRae cannot independently consider any demand
 9 to sue himself for breaching his fiduciary duties to the Company, because that would
 10 expose him to liability and threaten his livelihood.

11 **Defendant Carter**

12 75. Defendant Carter is also a defendant in the state class actions pursuant
 13 to Section 11 of the Securities Act of 1933 entitled: (i) *Vardanian, et al. v. Arlo*
 14 *Technologies, Inc., et al.*, Case No.: 19CV342318 (Supr. Ct. Cal., Santa Clara
 15 County) (the “Vardanian Section 11 Class Action”); (ii) *Pham v. Arlo Technologies,*
 16 *Inc., et al.*, Case No.: 19CV340741 (Supr. Ct. Cal., Santa Clara County) (the “Pham
 17 Section 11 Class Action”); (iii) *Patel v. Arlo Technologies, Inc., et al.*, Case No.
 18 19CV340758 (Supr. Ct. Cal., Santa Clara County) (the “Patel Section 11 Class
 19 Action”); and (iv) *Hill, et. al. v. Arlo Technologies, Inc., et al.*, Case No.:
 20 19CV343033 (Supr. Ct. Cal., Santa Clara County) (the “Hill Section 11 Class
 21 Action”).

22 76. As such, Defendant Carter cannot independently consider any demand
 23 to sue himself for breaching his fiduciary duties to the Company, because that would
 24 expose him to liability and threaten his livelihood.

25 **Defendant Faison**

26 77. Defendant Faison is also a defendant in the state class actions pursuant
 27 to Section 11 of the Securities Act of 1933 entitled: (i) *Vardanian, et al. v. Arlo*
 28 *Technologies, Inc., et al.*, Case No.: 19CV342318 (Supr. Ct. Cal., Santa Clara

County) (the “Vardanian Section 11 Class Action”); (ii) *Pham v. Arlo Technologies, Inc., et al.*, Case No.: 19CV340741 (Supr. Ct. Cal., Santa Clara County) (the “Pham Section 11 Class Action”); (iii) *Patel v. Arlo Technologies, Inc., et al.*, Case No. 19CV340758 (Supr. Ct. Cal., Santa Clara County) (the “Patel Section 11 Class Action”); and (iv) *Hill, et al. v. Arlo Technologies, Inc., et al.*, Case No.: 19CV343033 (Supr. Ct. Cal., Santa Clara County) (the “Hill Section 11 Class Action”).

78. As such, Defendant Faison cannot independently consider any demand to sue himself for breaching his fiduciary duties to the Company, because that would expose him to liability and threaten his livelihood.

Defendant Summers

79. Defendant Summers is also a defendant in the state class actions pursuant to Section 11 of the Securities Act of 1933 entitled: (i) *Vardanian, et al. v. Arlo Technologies, Inc., et al.*, Case No.: 19CV342318 (Supr. Ct. Cal., Santa Clara County) (the “Vardanian Section 11 Class Action”); (ii) *Pham v. Arlo Technologies, Inc., et al.*, Case No.: 19CV340741 (Supr. Ct. Cal., Santa Clara County) (the “Pham Section 11 Class Action”); (iii) *Patel v. Arlo Technologies, Inc., et al.*, Case No. 19CV340758 (Supr. Ct. Cal., Santa Clara County) (the “Patel Section 11 Class Action”); and (iv) *Hill, et al. v. Arlo Technologies, Inc., et al.*, Case No.: 19CV343033 (Supr. Ct. Cal., Santa Clara County) (the “Hill Section 11 Class Action”).

80. As such, Defendant Summers cannot independently consider any demand to sue himself for breaching his fiduciary duties to the Company, because that would expose him to liability and threaten his livelihood.

Defendants Pope, Summers and Miller

81. Defendants Pope, Summers and Miller served as members of the Audit Committee. Pursuant to the Company’s Audit Committee Charter, the purposes of

the Committee are to assist the Board in fulfilling its oversight responsibilities related to:

- The accounting and financial reporting processes of the Company and audits of the financial statements of the Company;
- The integrity of the Company's financial statements; the Company's compliance with legal and regulatory requirements; the independent auditor's qualifications, independence, performance, and compensation; and the Company's internal controls over financial reporting and disclosure controls and procedures;
- The preparation and approval of the reports that the rules of the Securities and Exchange Commission (the "SEC") require be included in the Company's annual proxy statement;
- The Company's internal audit function;
- Transactions between the Company and a related party; and
- The application of the Company's Code of Business Ethics and Conflict of Interest Policy for Directors, Officers and Key Employees as established by the Board.

82. Defendants Pope, Summers and Miller breached their fiduciary duties of due care, loyalty, and good faith, because the Audit Committee, *inter alia*, allowed or permitted false and misleading statements to be disseminated in the Company's SEC filings and other disclosures and, otherwise, failed to ensure that adequate internal controls were in place regarding the serious accounting issues and deficiencies discussed herein. Thus, Defendants Pope, Summers and Miller face a substantial likelihood of liability for their breach of fiduciary duties and any demand upon them is futile.

COUNT I

Against the Director Defendants for Breach of Fiduciary Duty

83. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

1 battery-related issues in connection with recent firmware updates; (vi) because of
2 the foregoing, Arlo's fourth quarter 2018 results and consumer base would be
3 negatively impacted; and (vii) as a result, Arlo's Registration Statement was
4 materially false and misleading at all relevant times.

5 96. As such, Defendants caused the Company to violate section 10(b) of
6 the Exchange Act and SEC Rule 10b-5 in that they:

7 (a) employed devices, schemes, and artifices to defraud; and

8 (b) made untrue statements of material facts or omitted to state
9 material facts necessary in order to make the statements made, in light
10 of the circumstances under which they were made, not misleading.

11 97. As a result of Defendants' misconduct, the Company is suffering
12 litigation expense and reputational harm in the marketplace in violation of section
13 10(b) of the Exchange Act and SEC Rule 10b-5.

14 **PRAYER FOR RELIEF**

15 **WHEREFORE**, Plaintiff prays for relief and judgment, as follows:

16 (A) Declaring that Plaintiff may maintain this action on behalf of the
17 Company and that Plaintiff is an adequate representative of the Company;

18 (B) Finding the Director Defendants liable for breaching their fiduciary
19 duties owed to the Company;

20 (C) Directing Defendants to take all necessary actions to reform and
21 improve the Company's corporate governance, risk management, and internal
22 operating procedures to comply with applicable laws and to protect the Company
23 and its stockholders from a repeat of the rampant wrongful conduct described
24 herein;

25 (D) Awarding Plaintiff the costs and disbursements of this action, including
26 attorneys', accountants', and experts' fees; and

27 (E) Awarding such other and further relief as is just and equitable.

28 **JURY TRIAL DEMANDED**

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1 Plaintiff hereby demands a trial by jury.

2 Dated: June 10, 2019

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